

## Message Text

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ACTION COME-00

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 SAJ-01 AGR-05 /086 W  
----- 119505

R 121430Z JUL 76

FM AMEMBASSY BELGRADE  
TO SECSTATE WASHDC 7310

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E.O. 11652: NA

TAGS: ECON YO

SUBJ: YUGOSLAV ECONOMIC TRENDS, 5-MONTH DATA: MORE OF THE SAME

REF: BELGRADE 3531

SUMMARY: FIVE-MONTH ECONOMIC DATA SHOW BASIC CONTINUATION OF TRENDS OF FIRST FOUR MONTHS (REFTEL) INCLUDING IMPROVEMENT IN TRADE AND BALANCE OF PAYMENT AREAS. COST OF LIVING IN MAY JUMPED DUE TO INCREASES IN AGRICULTURAL PRICES, ALTHOUGH INDUSTRIAL PRODUCER PRICES REMAINED STABLE. VIRTUAL STAGNATION OF INDUSTRIAL PRODUCTION HAS MOVED TO FORE AS MAJOR POLICY CONCERN OF GOV AUTHORITIES. END SUMMARY.

### 1. BALANCE OF PAYMENTS.

A. MAY'S FOREIGN TRADE RESULTS WERE NOT AS GOOD AS APRIL'S BUT DID CONTINUE BASIC TREND OF SHARP IMPROVEMENT IN TRADE AND BALANCE OF PAYMENT AREAS. IN MAY YUGOSLAV EXPORTS (VALUE) INCREASED 19 PERCENT COMPARED TO MAY 1975 AND IMPORTS (VALUE) WERE 22 PERCENT LESS THAN IN MAY 1975. MAY'S EXPORTS WERE 7 PERCENT LESS THAN APRIL'S WHILE MAY'S IMPORTS WERE 8 PERCENT BELOW THOSE OF APRIL'S.

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OVER 77 PERCENT OF YUGOSLAVIA'S IMPORTS IN MAY WERE COVERED

BY EXPORTS WITH THE MONTHLY TRADE DEFICIT THE LOWEST SINCE JUL 1973.

B. IN PERIOD JAN-JAN 21, YUGOSLAV EXPORTS INCREASED 17 PERCENT AND IMPORTS DECREASED 14 PERCENT. THE TRADE DEFICIT IN THIS PERIOD AMOUNTED TO ABOUT \$947 MILLION, ROUGHLY HALF OF THE MORE THAN \$1.8 BILLION DEFICIT IN THE SAME PERIOD., 1975.

C. GEOGRAPHIC DISTRIBUTION OF 1976 TRADE IN THE PERIOD JAN 1-JUN 21 SHOWS YUGOSLAVIA'S IMPORTS TO DEVELOPED WESTERN MARKETS UP 35 PERCENT, WHILE YUGOSLAV IMPORTS FROM THESE MARKETS DECLINED 23 PERCENT. YUGOSLAV EXPORTS TO SOCIALIST COUNTRIES ROSE 15 PERCENT, WHILE IMPORTS FROM SOCIALIST COUNTRIES INCREASED 6 PERCENT. BOTH EXPORTS AND IMPORTS TO AND FROM DEVELOPING COUNTRIES HAVE DECLINED ABOUT 15 PERCENT. (IN RECENT INTERVIEW LUDVIGER SAID DECLINE IN YUGOSLAV EXPORTS TO LDCS IS DUE SOLELY TO FALL OFF IN SALE OF SHIPS. EXCLUDING EXPORTS OF SHIPS FROM 1975 AND 1976 DATA, LUDVIGER CLAIMS WOULD SHOW CONTINUED INCREASING TREND IN YUGOSLAV EXPORTS TO DEVELOPING COUNTRIES.)

D. YUGOSLAV'S IMPORT RESTRICTIONS ARE MAINLY RESPONSIBLE FOR THE DECLINE IN IMPORTS IN 1976. HOWEVER, THESE LIMITATIONS ARE NOW UNDER SHARP ATTACK FROM ENTERPRISES AND REPUBLICAN POLITICAL AUTHORITIES. THE SERBIAN EXECUTIVE COUNCIL HAS BEEN INCREASINGLY CRITICAL OF IMPORT CONTROLS IN RESPONSE TO ENTERPRISES' COMPLAINTS THAT PRODUCTION IS BEING CURTAILED DUE TO THE INABILITY TO IMPORT SPARE PARTS AND INDUSTRIAL RAW MATERIALS. THESE COMPLAINTS HAVE BEEN ECHOED AROUND THE COUNTRY. SENIOR GOY ECONOMIC OFFICIALS, INCLUDING LUDVIGER AND SEFER, HAVE DENIED THAT IMPORT CONTROLS ARE RESPONSIBLE FOR THE LOW GROWTH OF INDUSTRIAL PRODUCTION BUT ADMIT THAT SOME INDIVIDUAL ENTERPRISES MAY BE ADVERSELY AFFECTED. THESE OFFICIALS POINT OUT, HOWEVER, THAT YUGOSLAVIA'S EXCELLENT TRADE AND CURRENT ACCOUNT PERFORMANCE IN THE FIRST FIVE MONTHS WILL PERMIT LARGER IMPORTS IN THE SECOND HALF OF THE YEAR. LUDVIGER STATED IN JUN 28 INTERVIEW IN EKONOMIKA POLITIKA THAT THE FEC IS LIBERALIZING SOME IMPORT RESTRICTIONS AND IS ALSO EASING ADMINISTRATIVE PROCEDURES INVOLVED IN SECURING IMPORT LICENSES.

E. YUGOSLAVIA REPORTEDLY HAD CURRENT ACCOUNT SURPLUS LIMITED OFFICIAL USE

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OF OVER \$100 MILLION IN THE FIRST FIVE MONTHS 1976. NATIONAL BANK OFFICIALS TOLD EMBASSY THAT CURRENT ACCOUNT IS LIKELY TO REMAIN IN SURPLUS THROUGH SEPTEMBER DUE TO HIGH SUMMER TOURIST EARNINGS EVEN IF IMPORTS GROW STRONGLY IN MONTHS AHEAD. SENIOR YUGOSLAV OFFICIAL RECENTLY

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R 121430Z JUL 76

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 7311

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FORECAST ANNUAL CURRENT ACCOUNT DEFICIT OF \$250 MILLION, THE LOWEST ESTIMATE WE HAVE YET HEARD. (BASED ON LIKELY GROWTH OF IMPORTS IN SECOND HALF EMBASSY'S BEST ESTIMATE IS ANNUAL CURRENT ACCOUNT DEFICIT OF NOT MORE THAN \$400 MILLION.) SAME OFFICIAL REPORTED YUGOSLAVIA'S HARD CURRENCY RESERVES AT \$2 BILLION (A FIGURE MUCH GREATER THAN THAT REPORTED TO IMF) AND SAID DEBT SERVICING RATION HAS BEEN LOWERED TO 14 PER CENT BY SUCCESSFUL RESTRUCTURING OF MATURITIES. FINANCING OF THE EXPECTED DEFICIT DOES NOT APPEAR TO BE A PROBLEM AND INDEED YUGOSLAVIA'S BALANCE OF PAYMENTS POSITION IN 1976 DOES NOT REQUIRE LARGE NEW BORROWINGS. YUGOSLAV BANKS CONTINUE TO BE ACTIVE IN MIDDLE EAST OIL PRODUCING COUNTRIES. IN MAY A KUWAITI FINANCIAL CORPORATION REPORTEDLY AGREED TO EXTEND A MEDIUM-TERM LOAN TO HELP MODERNIZE YUGOSLAV RAILROADS. THIS LOAN WILL BE ARRANGED BY ISSUE OF YUGOSLAV BONDS, PROBABLY BACKED BY BEOGRADSKA BANKA AND/OR SERBIAN NATIONAL BANK, IN KUWAIT AND POSSIBLY OTHER MIDDLE EASTERN COUNTRIES.

2. INFLATION. MAY PRICE DATA SHOW A SUDDEN SPURT IN COST OF LIVING AND RETAIL PRICE FIGURES DUE PRIMRILY TO HIGHER AGRICULTURAL PRICES, INCREASED RENTS, AND INCREASED PRICE OF SERVICES. THIS HAS STIMULATED MORE CONSUMER GRUMBLING

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AND CAUSED POLITICAL AUTHORITIES TO CRITICIZE LACK OF SOCIAL ORGANIZATION IN THE LARGELY PRIVATE "GREEN MARKET" FOR FRUITS AND VEGETABLES. INDUSTRIAL PRODUCER PRICES REMAIN CALM IN MAY BUT FEC VICE PRESIDENT SEFER WARNED IN AN INTERVIEW JULY 1 IN VIJESNIK THAT FEC FACES GROWING DEMANDS FOR PRICE INCREASES. NATIONAL BANK OFFICIAL TOLD EMBASSY HE BELIEVES PRICES WILL INCREASE IN SECOND HALF, BUT ALSO BELIEVES AN ANNUAL GROWTH OF 12-15 PER CENT IN COST OF LIVING AND 7-8 PER CENT IN PRODUCER PRICES IS WELL WITHING REASON.

3. MONEY SUPPLY. THE COUNCIL OF GOVERNORS OF THE NATIONAL BANK HAS DECIDED TO ISSUE CASHIER NOTES IN TOTAL AMOUNT OF \$1.5 BILLION DINARS. NOTES WILL BE SOLD TO COMMERCIAL BANKS AND "OTHER FINANCIAL ORGANIZATIONS" FOR 6 MONTHS AT 6 PER CENT INTEREST. PURPOSE OF THESE NOTES IS APPARENTLY TO SOAK UP SOME OF THE EXCESS LIQUIDITY CURRENTLY IN COMMERCIAL BANKING SYSTEM DUE TO EXPECTED CURRENT ACCOUNT SURPLUS WITH INVISIBLES INCLUDED.

4. PRODUCTION. THE VOLUME OF INDUSTRIAL PRODUCTION IN MAY WAS 1.3 PER CENT BELOW THAT OF MAY 1975, BRINGING YUGOSLAVIA'S FIVE-MONTH GROWTH OF INDUSTRIAL PRODUCTION TO ONLY 0.5 PER CENT. DECLINES IN PRODUCTION HAVE OCCURRED IN SEVERAL INDUSTRIAL BRANCHES, INCLUDING FERROUS METALURGY, BUILDING MATERIALS, PAPER, ELECTRICAL MANUFACTURING AND FOOD. REGIONALLY, SLOVENIA HAS EXPERIENCED A DROP OF 1.8 PER CENT IN PRODUCTION, WHILE KOSOVO REGISTERED A 6.9 PER CENT INCREASE. SOME SENIOR YUGOSLAV OFFICIALS, INCLUDING SEFER IN THE VIJESNIK INTERVIEW, CLAIM TO SEE SIGNS OF AN INCIPIENT UP-TURN CITING AN APPARENT MILD IMPROVEMENT IN INVENTORIES AND SALES FIGURES IN MAY.

5. COMMENT: WITH TRADE, BALANCE OF PAYMENTS, AND INFLATION STATISTICS CONTINUING TO BE FAVORABLE, THE PROBLEM OF STAGNATING INDUSTRIAL PRODUCTION HAS MOVED TO THE FORE. THE MODERATE MEASURES ALREADY INSTITUTED TO STIMULATE PRODUCTION HAVE SHOWN FEW POSITIVE RESULTS THUS FAR AND POLITICAL AND SOCIAL REALITIES REQUIRE GREATER IMPROVEMENT. THE DANGER EXISTS THAT THE DEMANDS ACCUMULATED OVER A YEAR OF RESTRICTIONS WILL MAGNIFY ANY SUBSTANTIVE RELAXATION OF LIMITED OFFICIAL USE

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IMPORT CONTROLS OR OTHER ATTEMPTED STIMULATION OF PRODUCTION TO SUCH AN EXTENT THAT THE ECONOMY WILL ONCE AGAIN BE FACED WITH WERIOUS INFLATION AND BALANCE OF PAYMENTS PROBLEMS. THE UNDERLYING FACTORS OF LOW PRODUCTIVITY AND ASSOCIATED

HIGH COST PRODUCTION ARE STILL THERE.  
SILBERMAN

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